

## Indian Operations Outperform; Europe Continues to Drag

**Est. Vs. Actual for Q3FY24:** Revenue – **MISS**; EBITDA – **BEAT**; reported PAT – **MISS**

**Change in Estimates post Q3FY24:** FY24E/FY25E: Revenue -6%/-6%; EBITDA: -5%/21%, PAT: NA/34%

### Recommendation Rationale

- **Costs to ease up in Europe in the next year:** Netherlands is expected to deliver a positive EBITDA/t and turn net cash flow positive from the next fiscal year as BF6 relining is almost complete. It will start production shortly. TSN will operate on sustaining Capex in FY25, and energy prices have now eased on a YoY basis. In the UK, fixed costs will come down in phases, as the company will shut down one of the 'end of life BFs' by mid-CY24 and another by the end of CY24. The Company targets to pare down losses to half of what it is expected to incur in FY24.
- **Enhancing Indian footprint:** The new 5mtpa blast furnace at TSK-II will come online by the end of the next quarter and will ramp up only by Q1/Q2FY25, a 1 quarter delay than what was earlier expected. In FY25, KPO-II is expected to contribute volumes of only ~0.7 MT.
- **Spreads likely to contract in Q4FY24:** **India:** NSR to come down by Rs 1,000/t in Q4FY24 QoQ, and coking coal consumption cost is expected to rise by \$10/t. **Europe:** In the Netherlands, coking coal consumption costs to rise by \$18/t and by \$11/t in the UK. NSRs for the Netherlands are expected to see a reduction of £14/t as it has a larger share of long-term contracts and for the UK, it's expected to increase by £40/t as UK business is more dependent on spot prices. Spot prices in Europe are increasing because of the tensions in the Red Sea.

**Sector Outlook:** Cautious

**Company Outlook & Guidance:** For Q4FY24, the company's volumes will be 0.5 MT higher than Q3FY24, of which 0.4 MT will be higher in India and 0.1 MT in Europe, largely from the Netherlands. In FY25, the Netherlands production plan is 6.5-7.0 MT against 6.0-6.1 MT over the last few years, as the BF6 stabilises in the next couple of months. EAF of 3.0 MT, which will replace BFs will be commissioned by 2027. ~2,800 employees will be affected by the transition. The company has proposed a support package of £130 Mn, which is in addition to the ~£100 Mn funding already committed for the Transition Board set up with the UK and Welsh governments.

**Current Valuation:** SoTP using 1Y Fwd EV/EBITDA for India, Europe and Others at 6.0x (from 7.0x earlier), 4.0x, 5.0x on Mar'26 EBITDA (Rollover from Sep'25 EBITDA)

**Current TP:** Rs 150/share (From Rs 135/share)

**Recommendation:** We maintain our **BUY** rating on the stock.

**Financial Performance:** Tata Steel reported a decent set of results. Consolidated revenue (down 3%/1% YoY/QoQ) missed consensus and our estimate by 4%. However, Consolidated EBITDA at Rs 6,334 Cr was a significant beat (15% beat against consensus), led by higher EBITDA/t in India. EBITDA/t in India stood significantly ahead of our estimate at Rs 16,903/t (up 63%/26% YoY/QoQ), a 15% beat, led by higher sales realisation on higher volumes and lower consumption costs. European EBITDA/t loss stood in line at \$178/t, which expanded from a loss of \$155/t in Q3FY24 and \$95/t in Q3FY23. Attr. reported PAT stood at Rs 513 Cr compared to a loss of Rs 6,196 Cr in Q2FY24 and Rs 2,224 Cr in Q3FY23. Net debt slightly increased to Rs 77,405 Cr from Rs 77,032 Cr in Q2FY24.

**Outlook:** Increasing Indian footprint and decisive resolution of the UK assets are the key triggers for the stock in the long term. In the short term, the profitability is likely to be impacted on account of weaker European operations and higher coking coal costs. Despite the near-term cash pressure, this restructuring augurs well for the company in the long term as the overhang from the legacy UK assets will be extinguished. The Opex and maintenance Capex will also come down in the UK in the long term. Cost escalation post the consultation process and escalation in debt will be the key risk.

**Valuation & Recommendation:** We use SoTP and ascribe a 1-year Fwd EV/EBITDA multiple of 6.0x (7.0x earlier), 5.0x, and 4.0x to India standalone, other operations, and Europe respectively on Mar'26 EBITDA (rollover from Sep'25 EBITDA) to arrive at our Mar'25 forward TP of Rs 150/share (from Rs 135/share). We revise our EBITDA for FY24-26E on lower coking coal consumption costs as witnessed in Q3FY24 numbers. The TP implies a 12% upside from the CMP. We maintain our **BUY** recommendation on the stock.

### Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	55,312	-1%	-3%	57,520	-4%
EBITDA	6,334	47%	52%	4,165	52%
Adj EBITDA/t	8,035	37%	111%	5,839	38%
Underlying Net Profit	848	21%	NA	1,042	-19%
EPS (Rs)	0.7	21%	NA	0.85	-19%

Source: Company, Axis Research

(CMP as of 25<sup>th</sup> Jan 2024)

CMP (Rs)	134
Upside /Downside (%)	12%
High/Low (Rs)	141/101
Market cap (Cr)	1,65,633
Avg. daily vol. (6m) Shrs.	35,749,358
No. of shares (Cr)	1,229

### Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	33.90	33.90	33.70
FII	20.28	20.31	20.01
Mutual Funds / UTI	8.94	9.44	9.83
Financial Institutions	0.19	0.10	0.18
Others	36.69	36.25	36.28

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	2,25,304	2,32,092	2,58,509
EBITDA	22,608	33,046	38,633
Net Profit	(1,497)	11,805	15,179
EPS (Rs.)	(1.2)	9.7	12.4
PER (x)	-109.4x	13.9x	10.8x
P/BV (x)	1.7x	1.5x	1.4x
EV/EBITDA (x)	10.4x	7.0x	5.9x
ROE (%)	5%	11%	13%

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E	FY26E
Sales	-6%	-6%	-3%
Adj EBITDA	-5%	21%	22%
PAT (Attrib)	NA	34%	35%

### ESG disclosure Score\*\*

Environmental Disclosure	60.77
Social Disclosure Score	25.73
Governance Disclosure	89.86
<b>Total ESG Disclosure</b>	<b>58.83</b>
<b>Sector Average</b>	<b>50.60</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures. Sector average is for NSE500 companies

### Relative performance



Source: Ace Equity, Axis Securities

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## Key Concall Highlights

- **India Coking coal consumption cost lower than prime HCC prices due to leaner blends:** The Company is using leaner blends of coal, and the gap between prime coking coal and leaner blend has gone up. (Immediately post the Ukraine war, the gap had gone down). Domestic coal sourcing is 20% and externally purchased coal forms 80%. The majority of the domestic coal is from the company's own mines and it also participates in the coal auctions.
- **Netherlands (TSN) is expected to deliver a +ve EBITDA/t from next fiscal year** as BF6 relining is almost complete and it will start production shortly. This year, only 1 BF operated and a lot of sales were on rolled products made out of high-cost slabs as BF6 went for relining. TSN could turn net cash flow positive as it will operate on sustaining Capex in FY25, and energy and coal prices have now eased YoY. In the UK, fixed costs will come down in phases, as the company will shut down one of the 'end of life BFs' by mid-CY24 and the other by the end of CY24. **The company targets to pare down losses to half** of what it is expected to incur in FY24 in the UK.
- **UK asset restructuring:** The 3.0 MT EAF will be commissioned by 2027 (at a Capex of £1.25 bn, £500 Mn from UK government support) and the company has already commenced engineering design work and construction planning. Port Talbot's two high-emission blast furnaces (BF) that emit 2.18 tn of CO<sub>2</sub> per ton of crude steel will be wound up by the end of CY24 – the first BF by Jun'24 and the second BF with balance heavy end assets in H2CY24. During the transition phase, the company will continue to operate the hot strip mill and will continue to run its downstream assets to serve customers. It will import semi-finished steel from its operations in the Netherlands, India and other strategic locations.
- **Tata Steel will initiate statutory consultation** as the discussions with trade unions for the BF to EAF transition in which ~2,800 employees will be affected is over. The company has proposed a support package of £130 Mn, which is in addition to the ~£100 Mn funding already committed for the Transition Board set up with the UK and Welsh governments (Tata's contribution in that is £20 Mn).
- **Expansion plan beyond KPO II:** NINL from 1 to 5 mtpa, Kalingangar phase III from 8 to 13 mtpa and also parallelly looking at Bhushan Angul plant to go from 5 to 6.5 MTPA as step 1 before moving to 10 mtpa. These are the projects management will take to the board for finalizing over the next 6 months. NINL cost will be lower as it is a long product plant. Meeramandali Capex intensity is also expected to be lower than KPO II.
- **CBAM (Carbon Border Adjustment Mechanism):** CBAM Will come in 2026-27, which will help Port Talbot, as any import that comes into the UK will have to pay carbon tax. By that time UK facility will have its own steel coil from EAF which will have lower carbon cost, so the gap between the imported and UK's own coil will be higher.
- **Demand scenario in India:** Demand is strong in India, steel consumption in India has grown by 10-12% YoY. In the last quarter steel prices in India dropped by 3-4% compared to a 7%-8% drop in international prices.

## Key Risks to our Estimates and TP

- The key risk to our BUY rating is the decline in HRC prices in China, which could lead to lower prices in the rest of the world. Higher coking coal costs than our assumptions.
- Unfavourable outcome from UK asset restructuring process, leading to cost escalation and cash flow pressures and increase in Debt.
- Delay in the expansion and ramp-up of the KPO phase II project.

## Change in Estimates

	New			Old			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	2,25,304	2,32,092	2,58,509	2,38,841	2,47,205	2,65,665	-6%	-6%	-3%
EBITDA	22,608	33,046	38,633	23,884	27,270	31,607	-5%	21%	22%
PAT reported (Attrib)	(1,497)	11,805	15,179	2,638	8,812	11,242	NA	34%	35%

Source: Company, Axis Securities

## Tata Steel Q3FY24 Results Review

Consolidated		Q3FY23	Q2FY24	Q3FY24	Q3FY24	Q3FY24	YoY(%)	QoQ(%)	vs Axis Est	vs Consensus
		Actual	Actual	Axis Est	Consensus	Actual	%	%	%	%
Total Revenue from Operations	Rs Cr	57,084	55,682	57,520	57,811	55,312	-3%	-1%	-4%	-4%
<b>EBITDA</b>	<b>Rs Cr</b>	<b>4,154</b>	<b>4,315</b>	<b>4,165</b>	<b>5,526</b>	<b>6,334</b>	<b>52%</b>	<b>47%</b>	<b>52%</b>	<b>15%</b>
<b>Adj EBITDA</b>	<b>Rs Cr</b>	<b>2,727</b>	<b>4,147</b>	<b>4,165</b>	<b>5,526</b>	<b>5,742</b>	<b>111%</b>	<b>38%</b>	<b>38%</b>	<b>4%</b>
<b>Adj EBITDA per tonne</b>	<b>Rs/tonne</b>	<b>3,812</b>	<b>5,869</b>	<b>5,839</b>		<b>8,035</b>	<b>111%</b>	<b>37%</b>	<b>38%</b>	<b>NA</b>
EBITDA margin (%)	%	7.3%	7.7%	7.2%	9.6%	11.5%				
Underlying Attrib PAT	Rs Cr	-2,384	703	1,042	1,688	848	NA	21%	-19%	-50%
<b>Reported PAT (Attrib)</b>	<b>Rs Cr</b>	<b>-2,224</b>	<b>-6,196</b>	<b>1,042</b>	<b>1,688</b>	<b>513</b>	<b>NA</b>	<b>NA</b>	<b>-51%</b>	<b>-70%</b>
Underlying Diluted EPS (Rs)	Rs/sh	-0.20	0.58	0.85		0.69	NA	21%	-19%	NA
Reported Diluted EPS (Rs)	Rs/sh	-0.18	-5.07	0.85		0.42	NA	NA	-51%	NA
Net Debt	Rs Cr	71,706	77,032			77,405	8%	0%	NA	NA

Source: Company, Axis Securities, Bloomberg Consensus

Segmental EBITDA		Q3FY23	Q2FY24	Q3FY24	YoY(%)	QoQ(%)
		Actual	Actual	Actual	%	%
Tata Steel India	Rs Cr	5,334	6,917	8,257	55%	19%
Tata Steel Long Products	Rs Cr	(352)	(76)	45	NA	NA
Other Indian operations	Rs Cr	116	330	252	117%	-24%
Tata Steel Europe	Rs Cr	(1,551)	(2,512)	-2,872	NA	NA
Other trade related operations	Rs Cr	877	750	601	-31%	-20%
SE Asian operations	Rs Cr	(2)	11	9	NA	-13%
Rest of the world	Rs Cr	(256)	56	7	NA	-88%
<b>Total</b>	<b>Rs Cr</b>	<b>4,167</b>	<b>5,475</b>	<b>6,299</b>	<b>51%</b>	<b>15%</b>
Less: intersegment eliminations	Rs Cr	13	1,160	-35	NA	NA
<b>Total segment EBITDA</b>	<b>Rs Cr</b>	<b>4,154</b>	<b>4,315</b>	<b>6,334</b>	<b>52%</b>	<b>47%</b>
Adjustment	Rs Cr	(106)	(47)	(71)	NA	NA
<b>Calculated EBITDA</b>	<b>Rs Cr</b>	<b>4,048</b>	<b>4,268</b>	<b>6,264</b>	<b>55%</b>	<b>47%</b>

Source: Company, Axis Securities

		Q3FY23	Q2FY24	Q3FY24	Q3FY24	YoY(%)	QoQ(%)	vs Axis Est
Production volume:		Actual	Actual	Axis Est	Actual	%	%	%
<b>Total Consolidated</b>	<b>Mnt</b>	<b>7.56</b>	<b>7.31</b>	<b>7.58</b>	<b>7.58</b>	<b>0%</b>	<b>4%</b>	<b>0%</b>
<b>Delivery volumes:</b>								
<b>Total Consolidated</b>	<b>Mnt</b>	<b>7.15</b>	<b>7.07</b>	<b>7.15</b>	<b>7.15</b>	<b>0%</b>	<b>1%</b>	<b>0%</b>
Adj EBITDA per tonne Europe	\$/t	-95	-155	-178	-178	NA	NA	0%
Adj EBITDA per tonne India	Rs/t	10,379	13,401	14,705	16,903	63%	26%	15%
Adj EBITDA per tonne Consolidated	Rs/t	3,812	5,869	5,839	8,035	111%	37%	38%

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Total Operating income	2,43,353	2,25,304	2,32,092	2,58,509
Total Expenditure	2,11,053	2,02,696	1,99,046	2,19,876
<b>EBITDA</b>	<b>32,300</b>	<b>22,608</b>	<b>33,046</b>	<b>38,633</b>
Depreciation and Amortization	9,335	9,776	10,217	10,802
<b>EBIT</b>	<b>22,965</b>	<b>12,832</b>	<b>22,829</b>	<b>27,831</b>
Other Income	1,037	1,521	1,673	1,840
Share Of P/L Of Associates (Net of Tax)	418	(95)	439	461
Less: Interest & Fin Chg.	6,299	6,780	6,780	6,780
Less: Exceptional Items	(113)	6,882	-	-
<b>Profit before tax</b>	<b>18,235</b>	<b>596</b>	<b>18,161</b>	<b>23,352</b>
Provision for Tax	10,160	2,508	6,356	8,173
<b>Reported PAT</b>	<b>8,075</b>	<b>(1,912)</b>	<b>11,805</b>	<b>15,179</b>
Minority Interest	(685)	(415)	-	-
<b>Attributable PAT</b>	<b>8,760</b>	<b>(1,497)</b>	<b>11,805</b>	<b>15,179</b>
<b>EPS (Rs/sh) Basic</b>	<b>7.2</b>	<b>(1.2)</b>	<b>9.7</b>	<b>12.4</b>
<b>DPS (Rs/sh)</b>	<b>3.6</b>	<b>2.5</b>	<b>3.6</b>	<b>3.6</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Net Block	1,18,697	1,15,639	1,17,322	1,19,271
Other Tangible assets	9,223	9,223	9,223	9,223
CWIP + ITUD + Other Intangible Assets	44,314	46,714	48,814	51,064
Goodwill	5,602	5,602	5,602	5,602
Investments	8,410	9,118	9,412	9,721
Inventories	54,415	50,380	51,897	57,804
Trade Receivables	8,257	7,645	7,875	8,771
Cash / Bank balance	12,130	9,842	13,487	18,153
Retirement Benefit Assets	6,991	7,131	7,273	7,419
Misc. Assets	19,984	20,816	21,640	22,504
<b>Total assets</b>	<b>2,88,022</b>	<b>2,82,108</b>	<b>2,92,545</b>	<b>3,09,530</b>
Equity capital	1,221	1,221	1,221	1,221
Hybrid Perpetual Securities/ Share warrants	-	-	-	-
Reserves	1,01,861	97,311	1,04,719	1,15,501
Minority Interests	2,093	1,678	1,678	1,678
Total Borrowings	78,018	78,018	78,018	78,018
Def Tax Liabilities	14,116	14,116	14,116	14,116
Retirement Benefit Obligations	3,094	3,249	3,411	3,582
Provisions	8,659	9,091	9,546	10,023
Trade Payables	37,833	35,027	36,082	40,189
Other Liabilities and Provision	41,128	42,398	43,754	45,203
<b>Capital employed</b>	<b>2,88,022</b>	<b>2,82,108</b>	<b>2,92,545</b>	<b>3,09,530</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
Profit before tax	18,235	596	18,161	23,352
Depreciation	9,335	9,776	10,217	10,802
Interest Expenses	6,299	6,780	6,780	6,780
Non-operating / EO item	(2,961)	6,517	(378)	(393)
Change in W/C	(3,707)	2,937	529	(1,387)
Income Tax	(5,519)	(2,508)	(6,356)	(8,173)
<b>Operating Cash Flow</b>	<b>21,683</b>	<b>24,098</b>	<b>28,953</b>	<b>30,981</b>
Capital Expenditure	(14,142)	(16,000)	(14,000)	(15,000)
<b>Free cash Flow</b>	<b>7,541</b>	<b>8,098</b>	<b>14,953</b>	<b>15,981</b>
Other Investments	(4,537)	(707)	(294)	(309)
<b>Investing Cash Flow</b>	<b>(18,680)</b>	<b>(16,707)</b>	<b>(14,294)</b>	<b>(15,309)</b>
Proceeds from issue of Equity shares	1	-	-	-
Proceeds / (Repayment) of Borrowings	5,428	-	-	-
Finance cost paid	(6,120)	(6,780)	(6,780)	(6,780)
Dividend paid	(6,293)	(3,053)	(4,396)	(4,396)
Other Financing activities	2	155	162	171
<b>Financing Cash Flow</b>	<b>(6,981)</b>	<b>(9,678)</b>	<b>(11,014)</b>	<b>(11,006)</b>
Change in Cash	(3,977)	(2,288)	3,645	4,666
Opening Cash	15,607	12,130	9,842	13,487
<b>Closing Cash</b>	<b>12,130</b>	<b>9,842</b>	<b>13,487</b>	<b>18,153</b>

Source: Company, Axis Securities

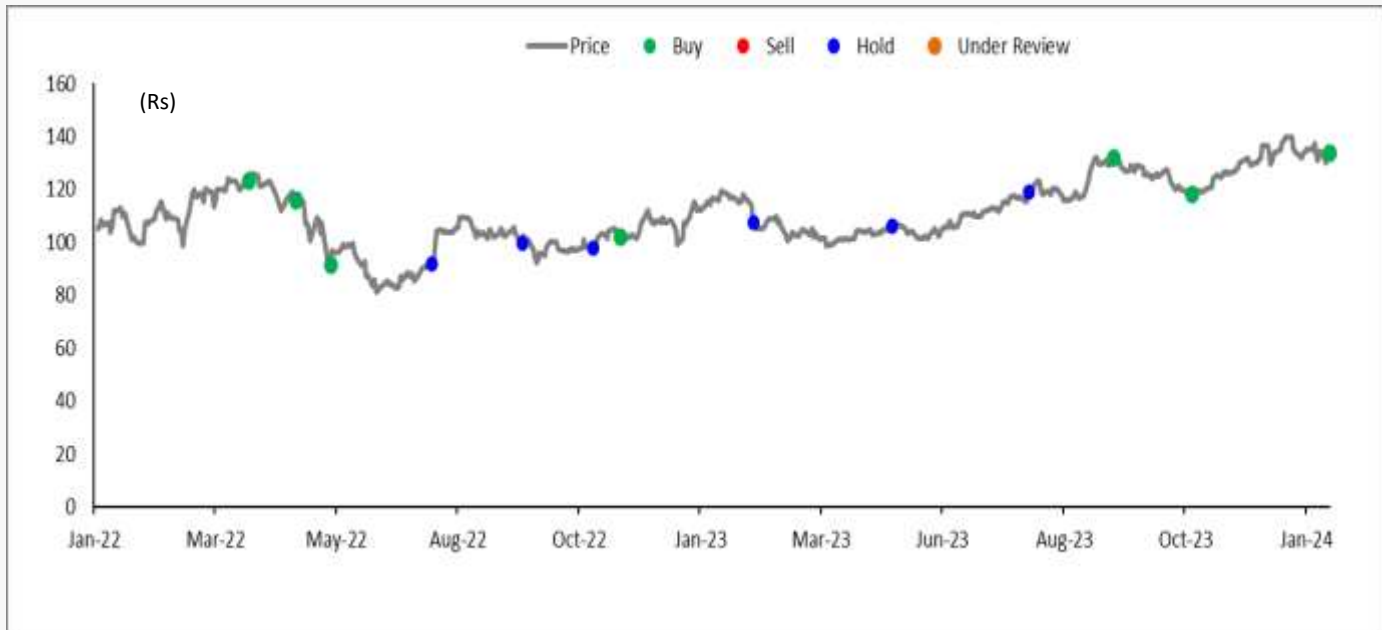
**Ratio Analysis**

(%)

Y/E March	FY 23A	FY 24E	FY 25E	FY 26E
<b>Operational Ratios</b>				
Sales growth (% YoY)	0%	-7%	3%	11%
EBITDA growth (% YoY)	-49%	-30%	46%	17%
Op. profit growth (% YoY)	-58%	-44%	78%	22%
Net Profit growth (% YoY)	-78%	-117%	-889%	29%
EBITDA Margin %	13%	10%	14%	15%
Net profit Margin %	4%	-1%	5%	6%
EBITDA/t (Rs/tonne)	0%	0%	0%	0%
Tax Rate %	56%	421%	35%	35%
<b>Efficiency Ratios</b>				
Total Asset Turnover (x)	0.85	0.79	0.81	0.86
Sales/Gross block (x)	1.24	1.09	1.08	1.13
Sales/Net block(x)	2.07	1.92	1.99	2.19
Working capital/Sales (x)	0.10	0.10	0.10	0.10
<b>Valuation Ratios</b>				
PER (x)	18.7x	-109.4x	13.9x	10.8x
P/BV (x)	1.6x	1.7x	1.5x	1.4x
EV/Ebitda (x)	6.1x	10.4x	7.0x	5.9x
EV/Sales (x)	0.8x	1.0x	1.0x	0.9x
Dividend Yield (%)	3.4%	1.9%	2.7%	2.7%
<b>Return Ratios</b>				
ROE	0.08	0.05	0.11	0.13
ROCE	0.12	0.07	0.12	0.14
ROIC	0.06	0.05	0.09	0.10
<b>Leverage Ratios</b>				
Debt / equity (x)	0.82	0.86	0.80	0.73
Net debt/ Equity (x)	0.61	0.68	0.64	0.54
Net debt/Ebitda (x)	2.07	3.09	2.00	1.58
Interest Coverage ratio (x)	5.13	3.33	4.87	5.70

Source: Company, Axis Securities

## Tata Steel Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
05-Apr-22	BUY	170	Initiating Coverage
04-May-22	BUY	170	Result Update
25-May-22	BUY	139	Sector Update
26-Jul-22	HOLD	104	Result Update
19-Sep-22	HOLD	115	Sector Update
01-Nov-22	HOLD	110	Result Update
21-Nov-22	BUY	117	Sector Update
08-Feb-23	HOLD	120	Result Update
04-May-23	HOLD	120	Result Update
26-Jul-23	HOLD	125	Result Update
18-Sep-23	BUY	145	Company Update
03-Nov-23	BUY	135	Result Update
29-Jan-24	BUY	150	Result Update

Source: Axis Securities

**About the Analyst**

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